

A COMPARISON OF STATE GOVERNMENT TAX REVENUE IN MONTANA AND SURROUNDING STATES

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Research Report



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A COMPARISON OF STATE GOVERNMENT TAX REVENUE IN MONTANA AND SURROUNDING STATES

Potential Revenue From Various Sources in Montana

PREPARED FOR THE
COMMITTEE ON STATE EMPLOYEE COMPENSATION

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INTRODUCTION

This report is divided into two parts. The first part provides a comparison of state tax collections by source for Montana and 12 surrounding states. These 13 states were included in the salary survey as part of the public employee compensation study. State tax collections are then compared on the bases of revenue per \$1,000 of personal income and revenue per capita. There is no information in this report on local tax revenue. As such, no conclusions can be made about the states' overall tax structures or the interrelationship between state and local taxes.

The second part of the report shows estimates of potential new tax revenue in Montana from various tax sources. Estimates are provided for individual and corporate income tax surcharges, sales taxes, a value-added tax, a statewide property tax, the elimination of the itemized deduction for federal income taxes paid, and the elimination of the exemptions from taxation of retirement income.

Tables and figures referred to in the report appear at the end of the narrative.

INTERSTATE TAX COMPARISONS

Nationwide, the predominance of one tax source over others varies considerably from state to state. While personal income taxes have become an increasingly important source of revenue in many states, the general sales tax is still the primary source of state revenue. According to the U.S. Bureau of the Census, the sales tax is the predominant source of revenue in 23 of 50 states and is the major source in 18 of the 39 states that impose

both a sales tax and an income tax.¹ In fiscal year 1988, the sales tax (excluding selective sales and excise taxes) accounted for 33 percent of the \$264.1 billion of state tax collections.² The personal income tax is the most important tax in 24 states and accounted for about 30 percent of the total.³ See Table I (page 7) for state government tax revenue by type of tax for Montana and the surrounding states.

Because the sales tax is the major source of revenue in 10 of the 13 states included in the salary survey, information on this tax is discussed first. The remainder of the taxes are discussed in the following order of importance: personal income taxes, severance taxes, property taxes, license taxes, and corporate net income taxes.

Figure 1 (page 15) shows sales and gross receipts tax collections in 1988. The total includes general sales taxes, as well as selective sales or excise taxes on motor fuels, public utilities, tobacco and alcohol products, insurance premiums, amusement businesses, and

others. Table II (page 8) provides corresponding detail on sales and gross receipts tax collections by kind of tax.

While the sales tax is relatively more important in Nevada and South Dakota, Washington collects more in sales taxes than any other state. The figure for Washington also includes the business and occupation tax imposed on the gross receipts of all businesses.

An interesting anomaly exists with respect to sales tax collections in Montana and Wyoming. In 1988, total selective sales tax collections in Montana were only \$20 million less than in Wyoming. The Wyoming general sales tax amounted to \$151 million in that year, but the selective sales taxes in Montana generated three to four times the amount of similar taxes in Wyoming.

Figure 2 (page 16) shows the total and percent of total of individual income tax revenues. Four states (Nevada, South Dakota, Washington, and Wyoming) do not impose an individual income tax. In those states that have both an income tax and sales taxes (Arizona, Colorado, Idaho, Minnesota,

¹ U.S. Bureau of the Census, State Government Tax Collections in 1988, Government Finances, December 1989, p. vi.

² Ibid., p. ix.

³ Ibid.

New Mexico, North Dakota, and Utah), the relative importance of all sales taxes is much greater than the income tax, except in Colorado and Minnesota where they are roughly equal. Comparing just the general sales tax with the income tax shows that the income tax is relatively more important in Colorado, Minnesota, and Utah.

Figure 3 (page 17) shows severance tax collections and the relative importance of this tax in each state. The severance tax is the most important tax in Wyoming. This tax also generates significant amounts of revenue in New Mexico, Montana, and North Dakota. This tax is relatively unimportant to the other states. Arizona is the only surrounding state that does not impose a severance tax.

Figure 4 (page 18) shows statewide property tax collections. The property tax is somewhat important in Washington and Wyoming but is relatively unimportant in the remainder of the states. In Montana, 1988 statewide property tax collections included \$11.6 million for the university levy, \$8.8 million in excess school equalization revenue, \$7.2 million for state-assumed welfare costs, \$1.2 million for vocational and technical education, and lesser amounts for other purposes.¹

Figure 5 (page 19) shows license tax collections. These include motor vehicle taxes and fees, business license taxes and filing fees, hunting and fishing fees, taxes on the manufacture and distribution of alcoholic beverages, license taxes imposed upon amusement businesses, and others. Table III (page 9) shows the source and the amount collected from each of these taxes. Revenue from these sources is typically earmarked for special purposes. The amounts collected by the states from license taxes are generally more than either property taxes or corporation net income taxes.

Figure 6 (page 20) shows corporation net income tax collections. Three states (Washington, Wyoming, and Nevada) do not impose a net income tax on corporations. In 1988, the amount of taxes collected from this source was less than 8 percent of the total in each of the states that employ this tax. The average percentage distribution nationwide for this tax was 8.2 percent of total collections.²

Figure 7 (page 21) summarizes the major tax revenue source for each of the surrounding states. The sales tax is the predominant source of revenue in 10

¹ Telephone conversation with Steve Bender, Research Bureau Chief, Montana Department of Revenue, March 22, 1990.

² U.S. Bureau of the Census, op. cit., p. ix.

states. The personal income tax is the major source of revenue in Montana and Oregon, while the severance tax is the most important source in Wyoming. Table IV (page 10) shows the percentage distribution for all state government revenue by type of tax.

Most of the states included in the analysis generally rely more heavily on their major tax source than would be indicated by the national averages for the percentage distribution of state taxes by source.

Table V (page 11) compares total tax revenue per \$1,000 of personal income¹ with total tax revenue per capita for the 13 states. While both measures are commonly used when comparisons of this kind are made, it is usually more informative to analyze taxes with respect to personal income. This statistic indicates the relation of taxes to the level of economic activity as measured by personal income. Wealthy states usually generate more revenue per capita than poorer states. It is not obvious how much revenue states will generate in relation to personal income.

These comparisons do not reflect tax burdens because states have the ability, by varying degrees, to export taxes. This is especially true for energy-producing states, such as Montana and Wyoming, and states with large tourism industries, such as Nevada. In addition, some states, such as New Mexico, provide income tax credits to reduce the burden of other state and local taxes.

There is not much difference in the rankings of the states regardless of whether revenue per \$1,000 of personal income or revenue per capita is used as the basis of comparison. The major exception is Nevada. Using revenue per \$1,000 of personal income, Nevada is ranked ninth, but on a per capita basis, it is ranked fifth. On the other hand, Nevada is ranked eighth in terms of population and total personal income but is ranked first in terms of per capita personal income. See Table VII (page 13).

ESTIMATED REVENUE POTENTIAL IN MONTANA BY TYPE OF TAX

Table VIII (page 14) shows the potential revenue from various sources. The most productive revenue source is a broad-based sales tax. A 1 percent sales tax on most goods and services could generate up to \$79 million. The next largest source of revenue would be the elimination of the deduction for federal income taxes paid in determining taxable income for individuals in Montana. A 1 percent narrow-based sales tax on goods only (including food)

¹ Table VI (page 12) shows revenue per \$1,000 of personal income by state for each type of tax.

could generate up to \$64.8 million, while a 1 percent value-added tax could raise about \$48 million (net of the Montana corporation license tax). Other potential revenue sources, including a 1 percent individual and corporation income tax surcharge or a 1 mill statewide property tax levy, would raise much smaller amounts.

TABLE I

STATE GOVERNMENT TAX REVENUES BY TYPE OF TAX: 1988
MONTANA AND SURROUNDING STATES
(Thousands of Dollars)

STATE	SALES GROSS RECEIPTS	LICENSES	INDIV. INCOME	CORP. NET INCOME	SEVERANCE	PROPERTY	DEATH/ GIFT	DOC. STOCK TRANS.	OTHER	TOTAL
ARIZONA	2,290,007 3,722,112	257,043	857,710	148,134	0	138,240	30,978	0	0	
COLORADO	1,214,576 2,725,767	159,078	1,159,923	146,776	15,330	6,083	13,175	0	10,826	
IDAHO	478,290 893,658	70,344	280,991	61,352	675	80	1,926	0	0	
MINNESOTA	2,702,528 6,143,956	375,120	2,625,405	411,960	7,796	7,536	13,610	1	0	
MONTANA	182,094 715,083	74,058	243,768	46,200	112,779	34,958	8,745	0	12,481	
NEVADA	982,050 1,186,445	149,346	0	0	10,655	39,115	5,279	0	0	
NEW MEXICO	1,013,390 1,793,387	127,565	303,733	49,576	291,880	3,148	4,095	0	0	
N. DAKOTA	326,187 633,339	59,495	114,020	39,094	90,897	2,148	1,498	0	0	
OREGON	314,949 2,110,963	298,191	1,283,647	167,047	31,972	2	13,647	1,508	0	
S. DAKOTA	392,944 475,701	37,589	0	26,357	8,449	0	10,362	0	0	
UTAH	786,820 1,602,093	73,204	637,511	71,663	29,156	296	3,443	0	0	
WASHINGTON	4,511,633 5,994,964	329,349	0	0	45,790	948,787	18,846	140,559	0	
WYOMING	203,087 573,030	60,926	0	0	230,272	77,288	1,457	0	0	

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, p. 3.

TABLE II

STATE GOVERNMENT SALES AND
GROSS RECEIPTS TAX REVENUES: 1988
MONTANA AND SURROUNDING STATES
(Thousands of Dollars)

STATE	GENERAL	MOTOR FUELS	PUBLIC UTIL.	TOBACCO PROD.	INSUR.	ALCOH. BEV.	PARI- MUTUEL	AMUSE.	OTHER	TOTAL
ARIZONA	1,706,342	314,928	91,999	52,407	72,433	40,954	10,145	799	0	2,290,007
COLORADO	724,300	300,032	6,317	63,835	82,224	21,965	8,517	592	6,794	1,214,576
IDAHO	328,453	95,204	1,323	16,253	23,532	9,160	2,296	0	2,069	478,290
MINNESOTA	1,676,632	391,657	99,953	115,848	126,765	55,746	0	0	235,927	2,702,528
MONTANA	0	102,404	10,494	12,052	39,510	13,208	144	0	4,282	182,094
NEVADA	546,409	99,238	4,419	14,089	46,446	11,070	12	256,284	4,083	982,050
NEW MEXICO	739,904	138,703	6,004	18,814	43,483	17,471	2,330	81	46,600	1,013,390
N. DAKOTA	204,793	63,668	10,994	16,644	14,662	5,630	0	0	9,796	326,187
OREGON	0	166,072	5,145	70,306	58,730	10,510	4,186	0	0	314,949
S. DAKOTA	262,348	61,844	760	14,282	23,480	9,013	1,000	0	20,217	392,944
UTAH	589,480	129,370	4,728	21,656	25,286	16,300	0	0	0	786,820
WASHINGTON	3,553,516	435,456	170,965	129,724	93,619	102,010	8,882	82	17,379	4,511,633
WYOMING	151,047	36,778	0	4,046	9,735	1,223	258	0	0	203,087

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, p. 4.

TABLE III

STATE GOVERNMENT LICENSE TAX REVENUE: 1988

MONTANA AND SURROUNDING STATES

(Thousands of Dollars)

STATE	MOTOR VEHIC.	MOTOR VEHIC. OPER.	CORP. IN GENER.	OCC. & BUSIN.	HUNT. & FISH.	ALCOH. BEV.	PUB. UTIL.	AMUSE.	OTHER	TOTAL
ARIZONA	190,519 257,043	6,899	3,801	23,686	13,293	1,624	0	31	17,190	
COLORADO	82,358 159,043	6,259	3,428	27,826	31,060	2,463	0	49	5,635	
IDAHO	31,659 70,344	3,104	457	15,728	15,359	1,002	2,435	0	600	
MINNESOTA	272,876 375,120	13,690	2,917	53,982	25,535	523	0	0	5,597	
MONTANA	29,796 74,058	2,004	750	10,428	19,213	1,558	1,220	9,052	37	
NEVADA	57,233 149,346	3,775	5,058	24,738	4,500	25	0	51,632	2,385	
NEW MEXICO	98,473 127,565	3,782	2,112	12,110	10,926	2	40	120	0	
NORTH DAKOTA	33,118 59,495	2,375	610	18,616	3,240	261	10	1,261	4	
OREGON	191,569 298,191	14,016	3,693	57,663	21,804	1,518	5,309	716	1,903	
SOUTH DAKOTA	20,869 37,589	1,300	800	8,000	5,490	186	0	144	800	
UTAH	40,349 73,204	5,340	0	12,201	14,361	420	0	0	533	
WASHINGTON	155,977 329,349	16,228	6,434	103,515	26,100	7,354	11,850	210	1,681	
WYOMING	40,701 60,926	836	2,249	1,300	14,189	0	1,424	0	227	

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, p. 5.

TABLE IV

PERCENTAGE DISTRIBUTION OF STATE GOVERNMENT TAX REVENUE
BY TYPE OF TAX: 1988
MONTANA AND SURROUNDING STATES

STATE	SALES/ GROSS RECEIPTS	LICENSES	INDIV. INCOME	CORP. NET INCOME	SEVERANCE	PROPERTY	DEATH/ GIFT	DOC. STOCK TRANSFER	OTHER
ARIZONA	61.5	6.9	23.0	4.0	0.0	3.7	0.8	0.0	0.0
COLORADO	44.6	5.8	42.6	5.4	0.6	0.2	0.5	0.0	0.4
IDAHO	53.5	7.9	31.4	6.9	0.1	0.0	0.2	0.0	0.0
MINNESOTA	44.0	6.1	42.7	6.7	0.1	0.1	0.2	0.0	0.0
MONTANA	25.5	10.4	34.1	6.5	15.8	4.9	1.2	0.0	1.7
NEVADA	82.8	12.6	0.0	0.0	0.9	3.3	0.4	0.0	0.0
NEW MEXICO	56.5	7.1	16.9	2.8	16.3	0.2	0.2	0.0	0.0
NORTH DAKOTA	51.5	9.4	18.0	6.2	14.4	0.3	0.2	0.0	0.0
OREGON	14.9	14.1	60.8	7.9	1.5	0.0	0.6	0.1	0.0
SOUTH DAKOTA	82.6	7.9	0.0	5.5	1.8	0.0	2.2	0.0	0.0
UTAH	49.1	4.6	39.8	4.5	1.8	0.0	0.2	0.0	0.0
WASHINGTON	75.3	5.5	0.0	0.0	0.8	15.8	0.3	2.3	0.0
WYOMING	35.4	10.6	0.0	0.0	40.2	13.5	0.3	0.0	0.0

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, p. 3.

TABLE V

COMPARISON OF STATE GOVERNMENT REVENUE PER \$1000
OF PERSONAL INCOME WITH STATE REVENUE PER CAPITA: 1988

STATE	REVENUE PER \$1,000 OF PERSONAL INCOME	RANK	REVENUE PER CAPITA	RANK
ARIZONA	76.80	6	1,073.89	6
COLORADO	53.06	13	828.50	11
IDAHO	75.43	7	894.55	9
MINNESOTA	90.85	3	1,426.84	1
MONTANA	71.57	10	889.41	10
NEVADA	71.98	9	1,119.29	5
NEW MEXICO	100.68	1	1,187.67	4
NORTH DAKOTA	72.48	8	955.26	7
OREGON	55.20	11	770.14	12
SOUTH DAKOTA	53.45	12	665.32	13
UTAH	83.90	5	947.42	8
WASHINGTON	84.68	4	1,297.89	2
WYOMING	91.96	2	1,216.62	3

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, pp. 2, 3, and 7.

TABLE VI

STATE GOVERNMENT REVENUE PER \$1,000
OF PERSONAL INCOME: 1988
MONTANA AND SURROUNDING STATES

STATE	SALES GROSS INCOME TOTAL	LICENSES	INDIV. INCOME	CORP. NET INCOME	SEVERANCE	PROPERTY	DEATH/ STOCK GIFT	DOC. STOCK GIFT	TRANSFER	OTHER
ARIZONA	47.25	5.30	17.70	3.06	0.00	2.85	0.64	0.00	0.00	76.80
COLORADO	23.64	3.10	22.58	2.86	0.30	0.12	0.26	0.00	0.21	53.06
IDAHO	40.37	5.94	23.72	5.18	0.06	0.01	0.16	0.00	0.00	75.43
MINNESOTA	39.96	5.55	38.82	6.09	0.12	0.11	0.20	0.00	0.00	90.85
MONTANA	18.22	7.41	24.40	4.62	11.29	3.50	0.88	0.00	1.25	71.57
NEVADA	59.58	9.06	0.00	0.00	0.65	2.37	0.32	0.00	0.00	71.98
NEW MEXICO	56.89	7.16	17.05	2.78	16.39	0.18	0.23	0.00	0.00	100.68
NORTH DAKOTA	37.33	6.81	13.05	4.47	10.40	0.25	0.17	0.00	0.00	72.48
OREGON	8.24	7.80	33.56	4.37	0.84	0.00	0.36	0.04	0.00	55.20
SOUTH DAKOTA	44.15	4.22	0.00	2.96	0.95	0.00	1.16	0.00	0.00	53.45
UTAH	41.21	3.83	33.39	3.75	1.53	0.02	0.18	0.00	0.00	83.90
WASHINGTON	63.73	4.65	0.00	0.00	0.65	13.40	0.27	1.99	0.00	84.68
WYOMING	32.59	9.78	0.00	0.00	36.96	12.40	0.23	0.00	0.00	91.96

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, pp. 3 and 7.

TABLE VII

POPULATION AND PERSONAL INCOME: 1987
MONTANA AND SURROUNDING STATES

STATE	POPULATION (RANK) [THOUSANDS]	PERSONAL INCOME		PER CAPITA (RANK) [DOLLARS]	
		TOTAL (RANK) [THOUSANDS]			
ARIZONA	3,386 (3)		48,466,000 (4)		14,315 (5)
COLORADO	3,296 (4)		51,369,000 (3)		15,584 (4)
IDAHO	998 (9)		11,847,000 (9)		11,868 (12)
MINNESOTA	4,246 (2)		67,624,000 (2)		15,927 (2)
MONTANA	809 (10)		9,992,000 (10)		12,347 (10)
NEVADA	1,007 (8)		16,484,000 (8)		16,366 (1)
NEW MEXICO	1,500 (7)		17,812,000 (7)		11,875 (11)
NORTH DAKOTA	672 (12)		8,738,000 (12)		13,004 (7)
OREGON	2,724 (5)		38,245,000 (5)		14,041 (6)
SOUTH DAKOTA	709 (11)		8,900,000 (11)		12,550 (9)
UTAH	1,680 (6)		19,095,000 (6)		11,366 (13)
WASHINGTON	4,538 (1)		70,795,000 (1)		15,599 (3)
WYOMING	490 (13)		6,231,000 (13)		12,709 (8)

Source: Bureau of the Census, State Government Tax Collections in 1988, Government Finances, GF-88-1, p. 7.

TABLE VIII

REVENUE POTENTIAL FROM VARIOUS TAX SOURCES	
TYPE OF TAX	AMOUNT ¹
1% general sales tax ²	
Broad-based	\$79.0 million
Narrow-based	64.8 million
Elimination of the deduction for federal income taxes paid ³	68.1 million
1% value-added tax ⁴	48.0 million
Elimination of exemptions on retirement income ⁵	8.5 million
1% personal income tax surcharge ⁶	2.8 million
1% corporation license tax surcharge ⁷	0.5 million
1 percentage point increase in the average yield on investments in the Treasurer's fund ⁸	2.6 million
1 mill statewide property tax levy ⁹	1.9 million

¹ All figures are rounded to the nearest million because they are intended to illustrate magnitude and not accuracy.

² The estimate for a broad-based sales tax was derived from the fiscal note on SB 8, introduced during the June 1989 Special Session; the estimate for a narrow-based sales tax was derived from the fiscal note on SB 28, also introduced during the Special Session.

³ Tax Expenditure Report for the State of Montana, Fiscal Years 1990 and 1991, Montana Department of Revenue, January 1989.

⁴ Montana Legislative Council. The estimate is net of the corporation license tax of approximately \$50 million.

⁵ Tax Expenditure Report, op. cit.

⁶ Montana Department of Revenue

⁷ Montana Department of Revenue. Estimate is based on the average of corporation license tax collections between fiscal years 1986 and 1989.

⁸ Derived from information on the forecast of interest earnings provided by the Office of the Legislative Fiscal Analyst to the Revenue Oversight Committee at its February 9, 1990, meeting.

⁹ Montana Department of Revenue